Medicaid Consolidated Cost Report: Issues to Address

A workgroup consisting of counties, providers, a provider accountant, Myers and Stauffer, and DHS met to discuss the consolidation of cost reports for Residential Care Facilities (RCFs), Adult Rehabilitation Option (ARO), Intermediate Care Facilities for Mental Retardation (ICFs/MR) and Home and Community Based Services (HCBS). Many issues were identified that would need to be addressed in order to develop a consolidated cost report. It was concluded that the consolidation of cost reports for the above services is a large task that would require resources. The primary issues involved with consolidating cost reports are the following:

- Each of these services have different funding streams with different rules and policies regarding reporting and reimbursement of costs. Accordingly, there are different rules and cost reports for these services.

- Although there are similarities in the cost report schedules and instructions, there are also many differences that would need to be addressed through new rules. One such difference is the reporting periods. ICF/MR and HCBS providers are currently required to use a fiscal year end of June 30 for cost reporting, while ARO and RCF providers use their own fiscal year ends for cost reporting.

- **There are differences in definitions of allowable costs and cost limitations among the services that would also need to be addressed.** For example, HCBS employs a very specific definition of direct costs, with all other costs being considered indirect costs and subjected to the limitation on indirect costs of 20% of direct costs. ICFs/MR employs a broader definition of direct costs and limits administrative costs to 18% of total costs. The cost report forms for HCBS and ICFs/MR have been tailored to fit these requirements.

  The cost reports and how costs are defined on the reports are the basis for the calculation of provider rates. Changes in how costs are counted will result in changes in provider reimbursement rates, either up or down.

- Another issue is county involvement in paying for the non-federal share and the counties' desire for cost data in the format specified by the Member Counties' Cost Report form that uses different classifications of costs.

Implications

In summary, the cost reports have been developed to address specific issues for each of the programs and to meet federal or other regulatory requirements. Changing the definition of what costs are allowable and what costs are considered direct and indirect are the thorniest of the issues and may result in significant changes in the calculation of provider cost. This would likely result in changes in reimbursement rates for providers, either up or down.

Consolidation of cost reports is not simply a technical exercise, but one that would require larger policy decisions around the definition of cost, resulting in changes in provider rates, and potentially "winners and losers". These issues would need to be addressed in order to create a consolidated cost report for these programs.